



America's Small Businesses and International Trade: A Report

U.S. Small Business Administration

Office of International Trade

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Introduction

As we enter the 21st century, the face of America's small business community is changing. It is more diverse, more technologically driven, and much more global in scope than in the past.

In the last decade, the number of small businesses that export has tripled.¹ The dollar value of their exports has soared. Even with this rapid growth, America still faces a large trade deficit. And small businesses are very vulnerable to trade barriers. These are the challenges.

With 96 percent of the world's population and 67 percent of the world's purchasing power located outside our borders, the potential for small business growth in international trade is huge.²

To a large extent, technology has helped to level the playing field for small companies. Today, a small business in rural Maine can export machine parts to 38 countries, using the Internet. A woman in Mississippi can export food products to Canada. Handcrafted bowls from Colorado can be sold in Japan.

The U.S. Small Business Administration has been helping America's entrepreneurs start and grow their businesses since 1953. The Small Business Export Enhancement Act of 1980 directed the SBA to aggressively advance the interests of small business in international trade.

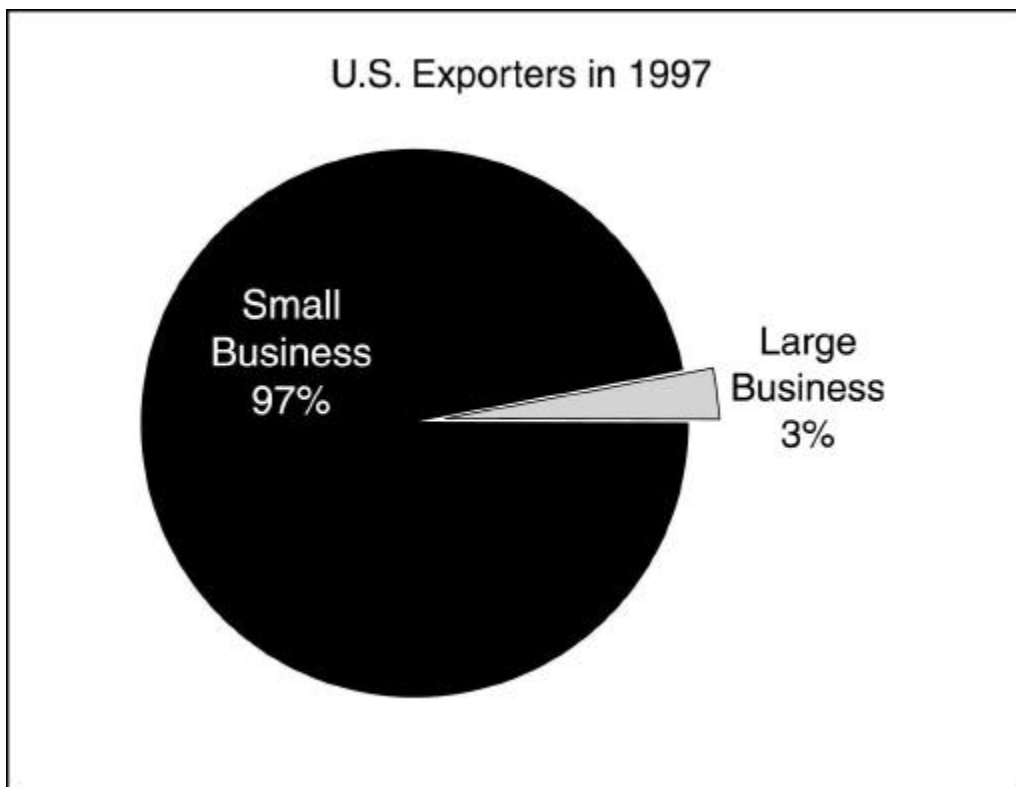
The SBA's mission is increasingly important today because small businesses are driving economic growth in the United States and are "going global" in record numbers.

This report is based on new research conducted for the SBA and the U.S. Department of Commerce.

Big News About Small Businesses

America's small businesses are big players in international trade — and their role is growing rapidly.

97 percent of U.S. companies that export are small businesses.³



In 1997 the total number of U.S. exporters reached 209, 500.⁴

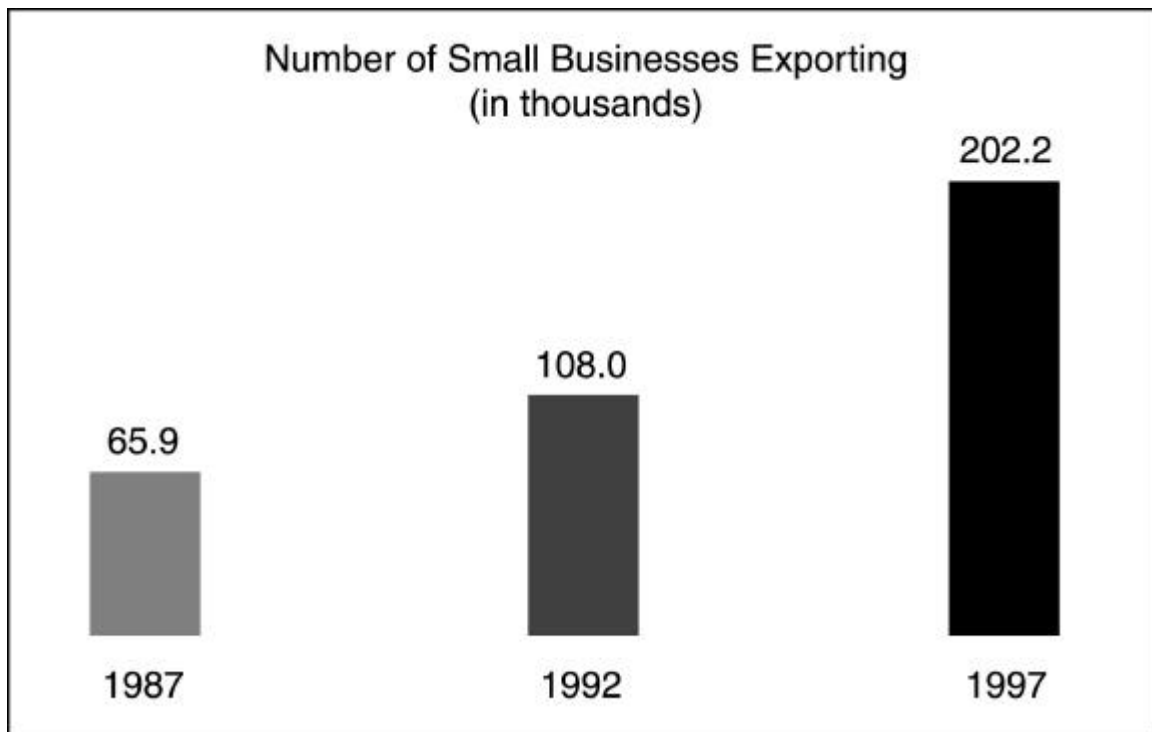
202,185 of all exporters in 1997 were small businesses.⁵

Small businesses account for 31 percent of total merchandise export sales.⁶ (There are no comparable statistics for service sales, but small businesses play a big role in service trade.)

Small exporting companies include all kinds of enterprises in just about every industrial classification.

Technology and globalization are factors fueling a dramatic growth in the number of small businesses engaged in international trade.

Between 1987 and 1997 the number of U.S. small business exporters tripled from 65,900 to 202,185.⁷



The fastest growth has been among very small businesses – those with fewer than 20 employees.⁸

- VSBs represented 65 percent of all exporting companies in 1997.⁹
- The value of small business exports increased by 300 percent between 1992 and 1997.¹⁰

Note: These figures represent merchandise trade. Figures are not available for other types of exported services, such as consulting, training, advertising and more. If these figures were available, most experts believe that they would show a substantially larger share of activity on the part of small business exporters.

In Syracuse, N.Y., Paul Genecco has gone global with his family's fruit and vegetable business. In the past eight years his sales skyrocketed from \$200,000 to nearly \$10 million a year.

Small Business Drives Economic Growth

The growth in small business trade is encouraging, because small business is the engine of America's economic growth.

- Small businesses have provided virtually all of the nearly 20 million net new jobs added to the economy since 1992.¹¹
- The approximately 24 million small businesses in the United States represent 99.7 percent of all employers and employ 53 percent of the private workforce.¹²
- Small businesses account for approximately 50 percent of the gross domestic product and 55 percent of technological innovations.¹³
- Small businesses are especially concentrated in services and technology, the fastest growing business sectors in the country.¹⁴

An Economic Challenge

Americans are enjoying unprecedented economic prosperity: strong economic growth with low inflation and low unemployment, with a balanced federal budget. Yet the United States still has a sizeable trade deficit.

In 1998 the deficit was \$164 billion, which was up substantially from the prior two years. By August 1999, the U.S. had already eclipsed the 1998 trade deficit.¹⁵

While overall exports are up about 3.7 percent from the same period last year, imports are up 9.6 percent. Only in the services sector, where small business is a big player, will we register a trade surplus.¹⁶

With most of the world's population and purchasing power outside of the United States, America's businesses must fully participate in the international marketplace to enjoy sustained economic prosperity in the 21st century.

In this period of global economic instability, the United States must remain active and engaged. Our economy is the strongest it has been in a generation. We are on the right course. We must work hard to shore up the strength of the global economy and continue to sharpen our ability to compete in it so that we can continue to widen the circle of opportunity as we approach the 21st century.

William J. Clinton
President of the United States

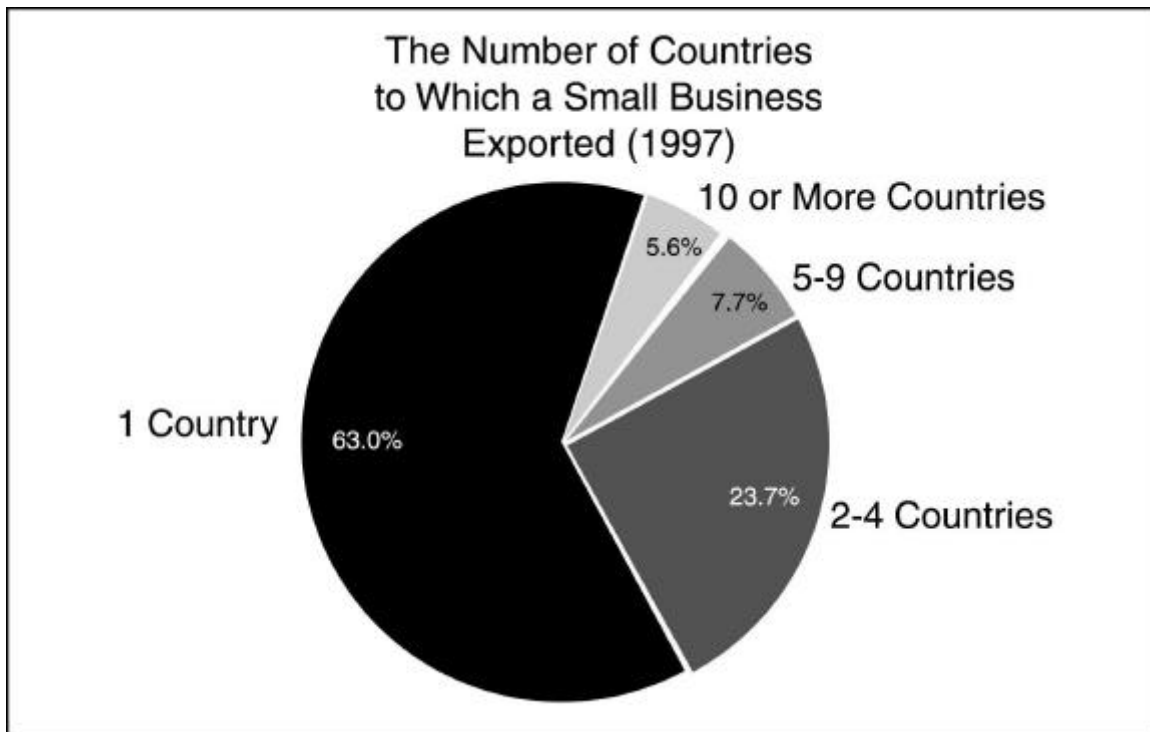
There is a huge, untapped potential for small business growth in the trade arena.

just over 202,000 — or about 1 percent — are currently exporting.

Small businesses account for 47 percent of total domestic sales; and only 31 percent

18

19



In 1997, 90 percent of them valued their total exports at less than \$1 million each.²⁰

Rachael Cargnan's business, Winderosa, exports machine gaskets to 38 countries. The business operates from a remodeled chicken coop in Peru, Maine. With sales greater than \$1.5 million, Winderosa employs 11 people.

Where Small Companies Do Business

The top ten markets for U.S. small business exporters are Canada, the United Kingdom, Japan, Mexico, Germany, Australia, Hong Kong, France, Taiwan and Singapore.²¹

Looking at the rate of growth in exports as a gauge of future market potential, the top ten fastest growing markets for U.S. small business exporters are Brazil, Malaysia, China, Philippines, Canada, Thailand, Israel, Argentina, the United Kingdom and Hong Kong.²²

Benefits to Communities

Small business exporters bring stability and prosperity to their communities.

- Small businesses have a direct stake in their communities and typically remain in their communities, observing labor, environmental, and other state and federal regulations.²³
- Small business exporters tend to pay higher salaries. American workers producing for export earn 15 percent higher wages and receive 11 percent higher benefits than non-export workers.²⁴
- Companies engaged in trade are 20 percent more productive and 9 percent more likely to stay financially solvent. They also experience 20 percent greater job growth than non-exporters.²⁵
- Every \$1 billion in exports of manufactured goods creates an estimated 15,000 new jobs; two to three times that number of additional jobs develop to support the new products and personnel (e.g. new restaurants, construction, etc.).²⁶

As I have traveled to other countries, and met with their entrepreneurs, I realize that small businesses around the world have more that brings them together than divide them Small business has yet to take its rightful place on the world stage!

**Aida Alvarez
Administrator
U.S. Small Business Administration**

Small businesses and their communities have a lot to gain from U.S. participation in the World Trade Organization: opportunity, more efficient use of resources and a more level playing field.

- The WTO is the best vehicle to ensure the fair and free movement of products and services across borders.
- Reducing the cost of doing business overseas allows small businesses, which typically have more limited access to investment capital and are disproportionately impacted by trade barriers, to become global players and grow at a much faster rate.
- Free and open global competition allows U.S. consumers to enjoy benefits such as lower prices, increased purchasing power and keeping inflation in check.

U.S. small businesses have important issues to bring to the WTO table:

- Better protection of U.S. intellectual property rights such as patents, copyrights and trademarks. This is important because a lot of small businesses are involved in technology sectors, and they don't have the resources to go around the world and fully protect their intellectual property rights.
- A better system for the uniform application of product standards. Sometimes, other countries have used arbitrary product standards to keep American products out. It is important to have a rational system of standards that all countries will adopt.
- Making permanent the moratorium on tariffs for electronic commerce. E-commerce has helped to level the playing field for small businesses and to enable them to compete in the global market.

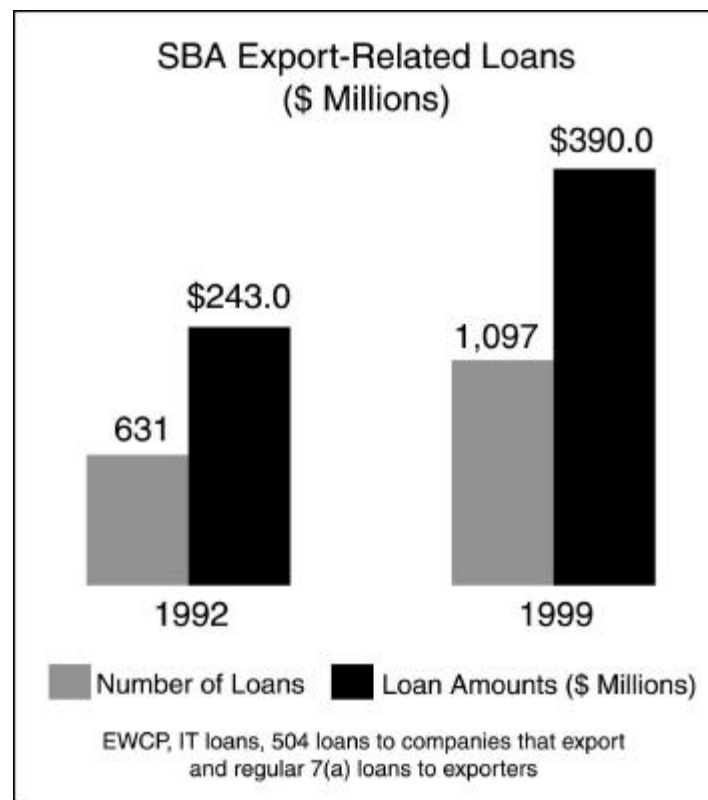
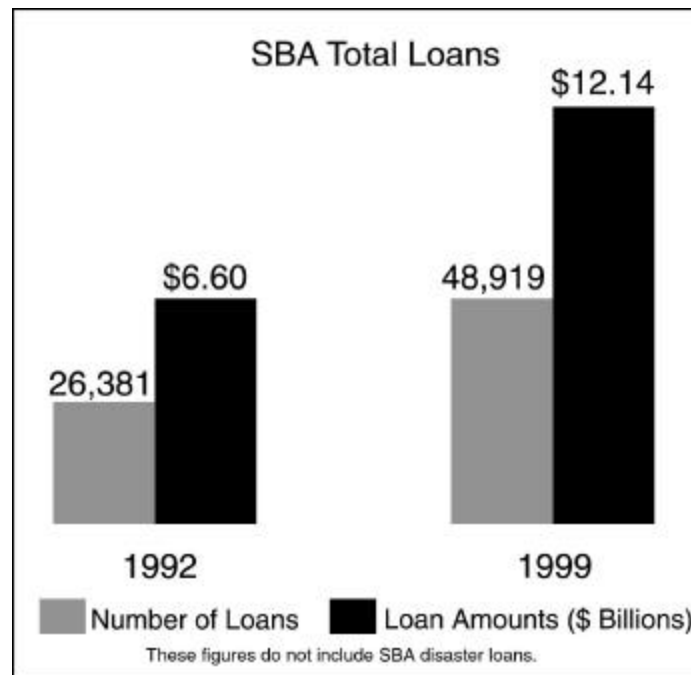
How the SBA Helps Exporters

In addition to its mandated role of representing the small business community in trade negotiations and disputes, the SBA provides financial and technical assistance, and promotes strategic partnerships for exporters.

Financial Assistance

- The SBA's financial assistance to small businesses has grown dramatically since 1992 — particularly to exporters.
- In addition to its regular 7(a) Loan Guaranty Program, the SBA has two loan programs specifically for small business exporters: the Export Working Capital and the International Trade Loan programs. The EWCP helps small business exporters obtain working capital to complete export sales. The International Trade Loan provides long- and short-term financing to small businesses involved in exporting as well as to businesses adversely affected by import competition.

- The SBA's 504 Loan Program can also provide long-term, fixed-asset financing to exporters through certified development companies.



Technical Assistance

- The SBA is a full partner with the U.S. Department of Commerce and the Export-Import Bank in 19 U.S. export assistance centers.
- Each of the SBA's 70 district offices has two district international trade officers — one specializing in finance, the other in trade promotion.
- The Office of International Trade maintains a Web site containing a wealth of information for exporters at **<http://www.sba.gov/oit>**.
- There are more than 30 international trade centers, located in small business development centers around the country, that focus on small businesses interested in or ready to export.
- Export Risk Analysis-Online, also known as EXR-Online, is an Internet-based, foreign-risk-analysis tool used in conjunction with the Export Working Capital and International Trade Loan programs.
- The Export Technical Assistance Partnership targets export-ready small businesses with customized training and counseling.
- The Export Legal Assistance Network sponsors a free initial consultation with an attorney to discuss international trade questions.
- TradeNet's Export Advisor is a one-stop online information resource for exporting. This multi-agency, multi-resource Web site is located on the Internet at **<http://www.tradenet.gov>**.

Strategic Partnerships

- The SBA has signed agreements with governments or entities in Ireland, Russia, Argentina, Mexico, South Africa and Egypt to establish trade links between businesses in their countries and small businesses in the United States.

Conclusion

Small businesses create jobs, generate economic growth and help build communities. The SBA's mission is to help those small businesses succeed, both at home and in the global marketplace.

A historic transformation is taking place. Technology and globalization are opening up doors for small businesses across the country and around the globe. Transactions between South Carolina and South Africa could one day be as easy as transactions between California and Connecticut. Small businesses have been involved in trade for centuries, but only now are they taking their rightful place on the world stage.

The challenges inherent in international trade are significant. The opportunities for growth are enormous. The benefits are substantial on many levels. Networks of small businesses trading all around the world will contribute to economic prosperity, stability and security at home and abroad.

Endnote References:

¹ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.

² U.S. Small Business Administration, Office of Advocacy.

³ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.

⁴ Ibid.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.

¹⁶ Ibid.

¹⁷ U.S. Small Business Administration, Office of Advocacy.

¹⁸ Exporter Data Base, U.S. Department of Commerce, Office of Trade and Economic Analysis, Trade Development/International Trade Agency.

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Exporting by Small Firms, A Report on Exporting by Firm Size, U.S. Small Business Administration, Office of Advocacy.

²⁴ Making U.S. Small Business Big Business in Asia, U.S. Department of Commerce.

²⁵ Ibid.

²⁶ Ibid.

All of the SBA's programs and services are provided to the public on a nondiscriminatory basis.

Produced by the Office of International Trade and the Office of Communications and Marketing.